

## Message Text

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PAGE 01 MEXICO 14731 01 OF 03 020152Z

ACTION ARA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07  
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XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 EUR-12  
OES-07 ERDA-05 IO-13 SNM-02 FEA-01 INT-05 ITC-01  
STR-04 /138 W

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R 020139Z SEP 77

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 4717

LIMITED OFFICIAL USE SECTION 01 OF 03 MEXICO 14731

E.O. 11652: N/A

TAGS: PFOR, PINT, EGEN, MX

SUBJECT: PRESIDENT LOPEZ PORTILLO'S STATE OF UNION MESSAGE

1. INTRODUCTION AND SUMMARY: LOPEZ PORTILLO'S FIRST INFORME WAS DELIVERED IN SLIGHTLY MORE THAN THREE HOURS, HAD A STRONG ECONOMIC ORIENTATION, AND CONCENTRATED ON HIGHLY FACTUAL AREAS OF THE CURRENT SITUATION AFTER NINE MONTHS OF HIS ADMINISTRATION, WITH HEAVY RELIANCE ON GRAPHS AND STATISTICS. REFERENCES TO HIS ALLIANCE FOR PRODUCTION PROGRAM WERE FREQUENT AND RELATIVELY DETAILED. AS EXPECTED, RECEPTION BY HAND-PICKED AUDIENCE OF LEGISLATORS AND GOVERNMENT OFFICIALS WAS GOOD, WITH MANY STANDING OVATIONS. THERE WERE NO DISCERNIBLE HINTS THAT HE IS CONTEMPLATING ANY CHANGES IN CABINET COMPOSITION. HE GAVE FOREIGN POLICY VERY SHORT TREATMENT WITH ONE PARAGRAPH ON MEXICAN-US RELATIONS, A LITTLE MORE THAN THAT TO SPAIN, AND ONLY OTHER PASSING REFERENCES. DOMESTICALLY, BESIDES COMMENTS ON THE ECONOMY, HE STRESSED ADMINISTRATION'S EDUCATIONAL COMMITMENT, PROMISED POLITICAL REFORM, INCLUDING OPENING UP OF ELECTION OF DEPUTIES

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PAGE 02 MEXICO 14731 01 OF 03 020152Z

FROM OTHER PARTIES, AND GAVE HIGH PRAISE TO LABOR FOR THE LOYALTY IT HAS SHOWN TO THE ADMINISTRATION. ON POPULATION GROWTH, HE ACKNOWLEDGED THE NEED FOR PLANNING THROUGH RESPONSIBLE PARENTHOOD AND WITH RESPECT FOR THE FREE WILL AND PRIVACY OF COUPLES, AND SPECIFICALLY MENTIONED THE NATIONAL COORDINATION AGENCY FOR FAMILY PLANNING. IN RELATED COMMENTS, HE DISCUSSED EXCESSIVE URBAN GROWTH,

PARTICULARLY IN THE CAPITAL, AND MENTIONED THE PROBLEMS IT CREATED IN TERMS OF PROVIDING SERVICES. IT WAS A WORK-MANLIKE AND QUITE TECHNICAL PERFORMANCE, WITH NO SURPRISES. IT SHOWED MOMENTS OF REAL ELOQUENCE ONLY IN THE PERORATION, WHERE, AFTER CONTRASTING THE PRESENT CLIMATE WITH THAT OF THE LACK OF CONFIDENCE OF ONE YEAR AGO, HE TOOK UP THE STYLE OF HIS INAUGURAL ADDRESS LAST DECEMBER 1, CALLING FOR COOPERATIVE EFFORT, ESCHEWING EASY SOLUTIONS TO DIFFICULT PROBLEMS, AND EXPRESSING CONFIDENCE IN THE FUTURE OF HIS COUNTRY. END SUMMARY.

2. ON THE GENERAL ECONOMIC OUTLOOK, JLP SAID THAT THE 1977 REAL GROWTH RATE WOULD NOT REACH 3 PERCENT, ADDING THAT THE ECONOMIC CRISIS HAD NOT YET BEEN OVERCOME. HOWEVER, HE MADE A MAJOR POINT OF CITING THE IMPROVEMENT IN THE ECONOMY SINCE THE LOW POINT WHICH HE SIGNED AS NOVEMBER 19, 1976, THE DATE THE RUN ON THE BANKS PEAKED; HE MENTIONED IN PARTICULAR THE REDUCTION IN THE RATE OF INFLATION. HE NOTED INFLATION WAS NOT AN ALTERNATIVE, AND ONCE AGAIN EMPHASIZED THE IMPORTANCE OF INCREASED PRODUCTION AS A MEANS TO OVERCOME INFLATION. IN THIS REGARD HE DISCUSSED HIS ALLIANCE FOR PRODUCTION.

3. AGRICULTURAL POLICY WAS TREATED EARLY IN THE ADDRESS, AND JLP PROMISED THIS SECTOR THE "MAXIMUM PRIORITY." AT THE SAME TIME HE SAID THAT THE DEMAND OF THE RURAL POPULATION FOR EMPLOYMENT COULD NOT BE MET WITHIN THIS SECTOR, LIMITED OFFICIAL USE

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PAGE 03 MEXICO 14731 01 OF 03 020152Z

BUT RATHER IN THE INDUSTRIAL AND SERVICE SECTORS. HE ALSO PROMISED SOME UNDEFINED LEGISLATION TO DEAL WITH PROBLEMS IN THIS AREA.

4. JLP'S COMMENTS ON INDUSTRIALIZATION EMPHASIZED PETROLEUM. MOST NOTEWORTHY, HE SAID THAT ALL PRODUCING COUNTRIES SHOULD RATIONALIZE PRODUCTION IN SUCH A WAY THAT WOULD BE ACCEPTABLE TO ALL COUNTRIES, BOTH DEVELOPED AND DEVELOPING. HE ALSO STRONGLY ATTACKED CRITICISM OF THE PROPOSED GAS PIPELINE TO THE U.S. AND SAID MEXICO'S PETROLEUM RESERVES WOULD ENABLE IT TO PURSUE AN INDEPENDENT ECONOMIC POLICY.

5. ON A MORE GENERAL NOTE, JLP SAID THAT TARIFFS WOULD GRADUALLY BE SUBSTITUTED FOR PRIOR IMPORT PERMITS, BUT HE WAS CAUTIOUS TO AVOID RENOUNCING IMPORT-SUBSTITUTION. AT SEVERAL POINTS, THE PRESIDENT CRITICIZED THE PREVIOUS INDUSTRIALIZATION STRATEGY, BUT HE FELL SHORT OF OUTLINING A NEW STRATEGY.

6. THE PRESIDENT REFERRED TO THE PUBLIC SECTOR BUDGET IN THE CONTEXT OF THAT APPROVED LAST DECEMBER AND USING

EXPENDITURE FIGURES FROM THIS DATE. HE DID NOT MENTION ANY UNDER-SPENDING, THOUGH HE REFERRED TO FAIRLY GOOD REVENUE EFFORTS. HE ALSO SIGNED GREATER PROGRESSIVITY IN TAX REFORMS TO BE IMPLEMENTED NEXT YEAR. HE DID NOT MENTION THE PUBLIC SECTOR DEFICIT.

7. THE IMPROVEMENT IN THE TRADE BALANCE WAS CITED AS HAVING IMPROVED, THOUGH JLP NOTED THIS IMPROVEMENT WAS DUE IN PART TO THE REDUCTION IN ECONOMIC ACTIVITY. JLP SAID THE PUBLIC SECTOR EXTERNAL DEBT AS OF JUNE 30 WAS \$20,948 MILLION. (THIS IS AN INCREASE OF \$1,348 IN THE FIRST HALF OF 1977.)

8. RESERVES, INCLUDING UNDEFINED SECONDARY RESERVES, WERE LIMITED OFFICIAL USE

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PAGE 04 MEXICO 14731 01 OF 03 020152Z

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PAGE 01 MEXICO 14731 02 OF 03 020201Z  
ACTION ARA-14

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R 020139Z SEP 77  
FM AMEMBASSY MEXICO  
TO SECSTATE WASHDC 4718

LIMITED OFFICIAL USE SECTION 02 OF 03 MEXICO 14731

\$2,936 MILLION AS OF AUGUST 31. RE FOREIGN INVESTMENT, JLP SAID THAT MEXICO HAS ABSOLUTE RESPECT FOR FOREIGN INVESTMENT, PRESUMABLY MEANING THERE IS NO DANGER OF NATIONALIZATION, WHILE ALSO STATING THAT EXISTING LEGISLATION WILL NOT BE CHANGED. HE DID NOT COMMENT ON THE PATENTS AND TRADEMARKS LAW AS HAD BEEN RUMORED.

9. REGARDING FOREIGN ECONOMIC POLICY, JLP CONGRATULATED THE MEXICAN DELEGATION TO CIEC, NOTING THAT SUBSTANTIAL ADVANCES TOWARD A NEW SOCIO-ECONOMIC WORLD ORDER WERE MADE; THE LACK OF GREATER PROGRESS INDICATES THAT MORE WORK IS NECESSARY. HE CALLED THE UN THE PROPER FORUM FOR THIS WORK.

10. AFTER REPEATED CALLS ON THE PRIVATE SECTOR TO DO ITS PART FOR THE ECONOMIC RECOVERY OF MEXICO, JLP PRAISED THE LABOR SECTOR FOR ITS "PATRIOTISM" IN COMPLYING WITH THE GOM'S DESIRE TO HOLD DOWN WAGE INCREASES DESPITE ERODING PURCHASING POWER. IN A GESTURE OF GRATITUDE, HE ANNOUNCED PLANS TO MAKE JOB-TRAINING A CONSTITUTIONAL RIGHT, GAVE FEDERAL GOVERNMENT EMPLOYEES AND THE ARMED FORCES A 10 PERCENT RAISE, GAVE SOME OTHER CATEGORIES A \$6 (US) A LIMITED OFFICIAL USE

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PAGE 02 MEXICO 14731 02 OF 03 020201Z

MONTH RAISE, AND ANNOUNCED PLANS TO IMPROVE THE CIVIL SERVICE BY JOB RECLASSIFICATION WHICH WOULD MITIGATE SOME OF THE ILL EFFECTS OF THE SENIORITY SYSTEM. JLP ALSO EMPHASIZED HIS GOVERNMENT'S RECENT SUCCESSES IN THE LABOR FIELD--EXPANSION OF THE FEDERAL CONCILIATION AND ARBITRATION SERVICES AND THE VERY RECENT OPENING OF A WORKER'S BANK.

11. DESPITE THE POSITIVE THEME OF THIS SECTION OF THE INFORME, JLP ALSO MADE A POINT OF CRITICIZING THOSE WHO STRIKE ILLEGALLY (A THEME AMPLIFIED LATER) AND ALSO BROUGHT IN THE BRACERO ISSUE. ON THE ILLEGALS, HE CALLED FOR "THE PARTIES INVOLVED TO JOINTLY SOLVE THIS COMMON PROBLEM, WHICH STEMS FROM A LONGSTANDING EXCHANGE RELATIONSHIP THAT IS UNFAVORABLE TO MEXICO". REPEATING A LINE HE HAS TAKEN MANY TIMES BEFORE, HE SAID "ONCE AGAIN, I STRESS THAT THEY (BRACEROS) ARE NOT CRIMINALS AND THAT A POSSIBLE INFRINGEMENT OF IMMIGRATION LAW DOES NOT ENTAIL A CORRESPONDING RIGHT TO INFRINGE LABOR LAWS, MUCH LESS THEIR HUMAN RIGHTS". HE SEVERAL TIMES REFERRED TO UNEMPLOYMENT AS A MAJOR PROBLEM, ONCE IN REGARD TO THE BRACEROS.

12. FOREIGN POLICY. PRESIDENT'S REFERENCE TO MEXICAN FOREIGN POLICY WAS EXTRAORDINARILY BRIEF, VERY GENERAL AND NON-CONTENTIOUS. AFTER MENTIONING MEXICO'S HISTORIC STRUGGLE AGAINST COLONIALISM, REFLECTED IN ITS SOLIDARITY WITH "DEVELOPING COUNTRIES", JLP REAFFIRMED COUNTRY'S ADHERENCE TO "GOLDEN RULE" OF MUTUAL RESPECT AND TREATING OTHERS AS MEXICO WOULD WISH TO BE TREATED. IN ONLY DIRECT TREATMENT OF U.S.-MEXICAN RELATIONS, HE SAID COEXISTENCE CONDITIONED BY PROXIMITY REQUIRED TWO COUNTRIES TO ADDRESS "TRADE, FINANCIAL, MONETARY AND DEMOGRAPHIC PROBLEMS AS

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PAGE 03 MEXICO 14731 02 OF 03 020201Z

A WHOLE IN BOTH THEIR LEGAL AND ILLEGAL ASPECTS AND WITH ALL THEIR IMPLICATIONS AND REPERCUSSIONS". PURPOSE OF WASHINGTON VISIT, HE SAID, WAS TO ESTABLISH BASES AND FORMULAS FOR NEW RELATIONSHIP BASED ON DIGNITY, MUTUAL RESPECT AND BALANCED TREATMENT.

IN REMAINING PORTION OF FOREIGN POLICY STATEMENT HE REFERRED TO NEW ERA OF RELATIONS WITH SPAIN, EXPANSION AND CONSOLIDATION OF RELATIONS WITH EUROPE (INCLUDING SPECIFIC REFERENCE TO EXPANDED TRADE AND TECHNICAL EXCHANGE WITH WEST GERMANY) AND CITED INCREASE IN MEXICAN CONTACTS WITH LA COUNTRIES TO PROMOTE UNITY, INVIGORATE ECONOMIES, "JOINTLY CONFRONT PROBLEMS RELATED TO AREA'S DECREASING SHARE OF WORLD TRADE", AND AVERT PROLIFERATION OF NUCLEAR WEAPONS. IN LATTER CONTEXT, JLP NOTED USG'S SIGNING OF PROTOCOL I OF TLATELOLCO TREATY. REFERRING TO BOGOTA MEETING, PRESIDENT CHARACTERIZED JOINT COMMUNIQUE AS VITAL EXAMPLE OF SOLIDARITY AND UNDERSTANDING RE REGIONAL PROBLEMS OF WORLD-WIDE SIGNIFICANCE, ADDING THAT IT RATIFIED MAJORITY CONSENSUS CONCERNING PANAMA AND BELIZE ISSUES AND APPROVED MEXICO'S PROPOSAL FOR COMMON FUND TO REGULATE INTERNATIONAL COFFEE PRICES. HE CONCLUDED BY CITING MEXICO'S EFFORTS TO PROMOTE NEW WORLD SOCIO-ECONOMIC ORDER IN NORTH-SOUTH (CIEC) CONFERENCE. MEAGER RESULTS DEMONSTRATE THAT ARDUOUS TASK LIES AHEAD, HE SAID, EMPHASIZING THAT MEXICO STRONGLY SUPPORTS UN AS LOGICAL FORUM FOR FUTURE CONSIDERATION OF NORTH-SOUTH ISSUES.

13. ARMED FORCES. JLP PAID TRIBUTE TO MEXICAN ARMED FORCES FOR UPHOLDING NATIONAL INSTITUTIONS AND SPECIFICALLY PRAISED EFFORTS RESULTING IN "UNPRECEDENTED RESULTS IN THE PERMANENT CAMPAIGN AGAINST DRUG TRAFFICKING" AND "INTERNATIONAL ACCLAIM".

14. POLITICAL REFORM. PRESIDENT SPOKE AT LENGTH ABOUT  
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PAGE 04 MEXICO 14731 02 OF 03 020201Z

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PAGE 01 MEXICO 14731 03 OF 03 020205Z  
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R 020139Z SEP 77  
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LIMITED OFFICIAL USE SECTION 03 OF 03 MEXICO 14731

GOVERNMENT'S PROGRAM OF POLITICAL REFORM DESIGNED TO  
EXTEND RANGE OF PUBLIC PARTICIPATION IN MEXICAN "DEMO-  
CRATIC STRUCTURE". SPECIFICALLY, HE WOULD SEND TO  
CONGRESS DRAFT OF BILL OF CONSTITUTIONAL AMENDMENTS AND,  
IF FIRST APPROVED, NEW LAW ON POLITICAL ORGANIZATIONS  
AND ELECTORAL PROCESSES. BASIC OBJECTIVE WOULD BE TO  
ENCOURAGE PARTICIPATION AND REPRESENTATION OF ALL POLITICAL  
PARTIES AND IDEOLOGIES. PROPOSED REFORMS WOULD SEEK TO  
ENSURE THAT MINORITIES ARE PROVIDED PROPORTIONAL  
REPRESENTATION IN CHAMBER OF DEPUTIES. THIS WOULD BE  
ACCOMPLISHED THROUGH "MIXED" ELECTORAL SYSTEM ASSIGNING  
300 DEPUTY SEATS ON BASIS OF MAJORITY VOTE  
SYSTEM AND 100 ACCORDING TO PRINCIPLE OF PROPORTIONAL  
REPRESENTATION. ALL RECOGNIZED PARTIES WOULD HAVE RIGHT  
TO "MINIMUM SUPPLY OF ELEMENTS NEEDED FOR THEIR ACTIVITIES"  
AND "PERMANENT ACCESS TO THE MASS MEDIA". THIS SYSTEM,  
WHILE ENSURING MINORITY REPRESENTATION, WOULD MAINTAIN  
DEMOCRATIC PRINCIPLE OF MAJORITY RULE AND PREVENT PRO-  
PORTIONAL REPRESENTATION FROM LEADING TO INSTABILITY  
HE EXPLAINED. REFORM BILL WOULD ALSO ENCOMPASS NEW  
ELECTORAL SAFEGUARDS, SUCH AS MAKING CHAMBER OF DEPUTIES  
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PAGE 02 MEXICO 14731 03 OF 03 020205Z

(60 MEMBERS FROM MAJORITY PARTY AND 40 CHOSEN ON  
PRINCIPLE OF PROPORTIONAL REPRESENTATION) AN ELECTORAL  
COLLEGE WITH SUPREME COURT HAVING RIGHT OF REVIEW OF  
DECISIONS.

REFORM LEGISLATION WOULD ALSO SPECIFY NEW AND MORE FLEXIBLE CONDITIONS FOR RECOGNITION OF POLITICAL PARTIES IN ORDER "TO OBTAIN REPRESENTATION OF THE ENTIRE SPECTRUM OF IDEOLOGIES" AND PROVIDE FOR NEW TYPE OF "NATIONAL POLITICAL ASSOCIATION". LATTER MAY PARTICIPATE IN POLITICS BUT NOT TAKE PART IN ELECTIONS UNLESS IT JOINS--TEMPORARILY OR PERMANENTLY--WITH AN EXISTING POLITICAL PARTY. PRESIDENT SAID POLITICAL REFORM OUTLINE TO REPRESENT ONLY FIRST STEP TOWARD REALIZATION OF MEXICAN IDEALS BY ENLARGING PEOPLE'S ROLE IN POLITICAL SYSTEM AND IS DESIGNED TO STRENGTHEN REVOLUTION.  
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**To:** STATE  
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